

City of Redmond Utilities

Budget Education Session #5

May 18 2004

Presented by:

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Purpose of Tonight's Presentation

- What Utilities does the City operate?
- Where does the Utilities revenue come from and where do the Utilities money go?
- How are Utility rates established?

What Utilities Are Currently Operated By The City?

- Water / Wastewater
 - ❑ Provides water and sewer services to in-city customers and to a handful of outside-the-city customers
- Urban Planned Development (UPD) Water & Wastewater
 - ❑ Provides water and sewer services to Redmond Ridge / Trilogy areas.
- Stormwater Management
 - ❑ Manages surface water run-off and protects/enhances City natural resources (e.g. streams, creeks, wetlands, Sammamish River) within Redmond city limits

Utilities Operate As Self-Sufficient Enterprises

- What does this mean?
 - Utilities are operated in a manner similar to a private enterprise (law)
 - User charges set to recover 100% of all operating and capital costs (policy)

Overview

- In general, each Utility is comprised of two parts:
 - Operations
 - Capital (Six Year CIP program)
- Focus of today's presentation will be mainly on the operations of the City's Utilities.

Water /Wastewater Utility

Water And Sewer Utility

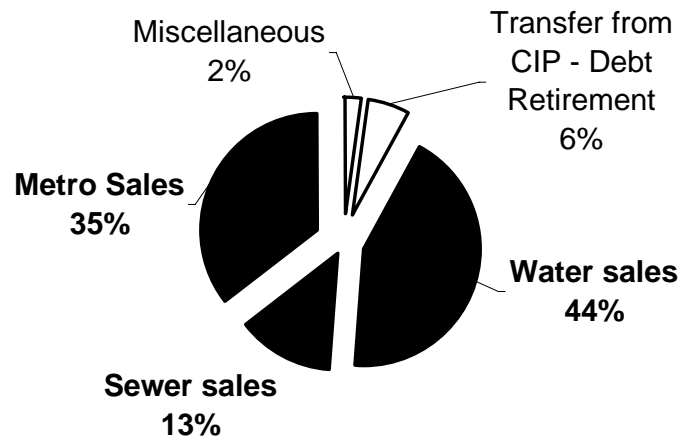
- Operations

- Three major components:
 - City Water
 - City Sewer
 - King County Metro Sewage Treatment
- Different rates apply to each component
- City develops the rates for its water/sewer services
- Metro rates developed by King County and are treated as a pass-through

Where Does The Revenue Come From?

- 57% of the Utility's revenues come from City water and sewer rates
- 35% of the Utility's revenues come from a pass-through of Metro sewage treatment fees assessed by King County

**Sources of Water/Sewer Utility Revenue
2003-04 Biennium: \$38.7M**



Note: Does not include beginning fund balance (\$1.9M)

Remaining outstanding debt was retired in 2003

Source: City 2003-04 Budget

How Are Water/Sewer Revenues Distributed by Customer Class?

Breakdown of W/S Revenues by Customer Class

| | # Customers | | Revenues | |
|--------------|-------------|------|--------------|------|
| Residential | 10,967 | 89% | \$12,243,612 | 35% |
| Multi-Family | 210 | 2% | \$8,990,363 | 25% |
| Commercial | 1,008 | 8% | \$11,361,799 | 32% |
| Irrigation | 162 | 1% | \$2,780,075 | 8% |
| Total | 12,347 | 100% | \$35,375,849 | 100% |

Source: City Finance and Utility Billing Records; Includes water, sewer and Metro sales

Revenue figures for 2003-04 biennium

Profile of a Typical Residential Water and Sewer Billing

- Billings for residential water and sewer services are made every two months (bi-monthly)
 - Components of a billing consist of a water charge, a sewer charge, and a pass-through of the Metro sewage treatment charge
 - Metro rates are established by King County. 2004 rate is \$46.80/bimonthly and is expected to rise to \$51.20 in 2005 (9.5% increase)
 - Water and Sewer Rates for customers outside the City limits are assessed a 25% surcharge (less than 1% of Utility customers are outside the City limits)

2004 Bi-monthly Water/Sewer Charges

| | In-City | | Outside City | |
|---------------------------|----------|------|--------------|------|
| | 2004 | % | 2004 | % |
| Water | \$52.60 | 45% | \$65.75 | 49% |
| Sewer | \$18.38 | 16% | \$22.98 | 17% |
| Metro Charge | \$46.80 | 40% | \$46.80 | 35% |
| Total Water/Sewer Charges | \$117.78 | 100% | \$135.53 | 100% |

Based on 10ccf consumption/month (water)

How Do Redmond's Water/Sewer Rates Compare To Other Jurisdictions?

- Redmond ratepayers enjoy one of the lowest water/sewer rates in the region.
- City is in the unique position of having its own wells that provide a third of its water needs, thus helping to keep the cost of purchased water down

2004 Bi-Monthly Water and Sewer Billings - Selected Jurisdictions

| Jurisdiction | Water Bimonthly Bill | Sewer* Bimonthly Bill | Total Charges |
|----------------------------------|-------------------------|--------------------------|------------------|
| City of Seattle | 76.10 | 88.50 | 164.60 |
| City of Issaquah | 84.61 | 74.80 | 159.41 |
| City of Kirkland | 79.58 | 79.78 | 159.36 |
| Woodinville Water District | 68.60 | 81.70 | 150.30 |
| City of Bothell | 66.60 | 82.33 | 148.93 |
| City of Bellevue | 63.13 | 69.75 | 132.88 |
| Northshore Utility District | 64.05 | 66.50 | 130.55 |
| City of Redmond (in-city) | 52.60 | 65.18 | 117.78 |

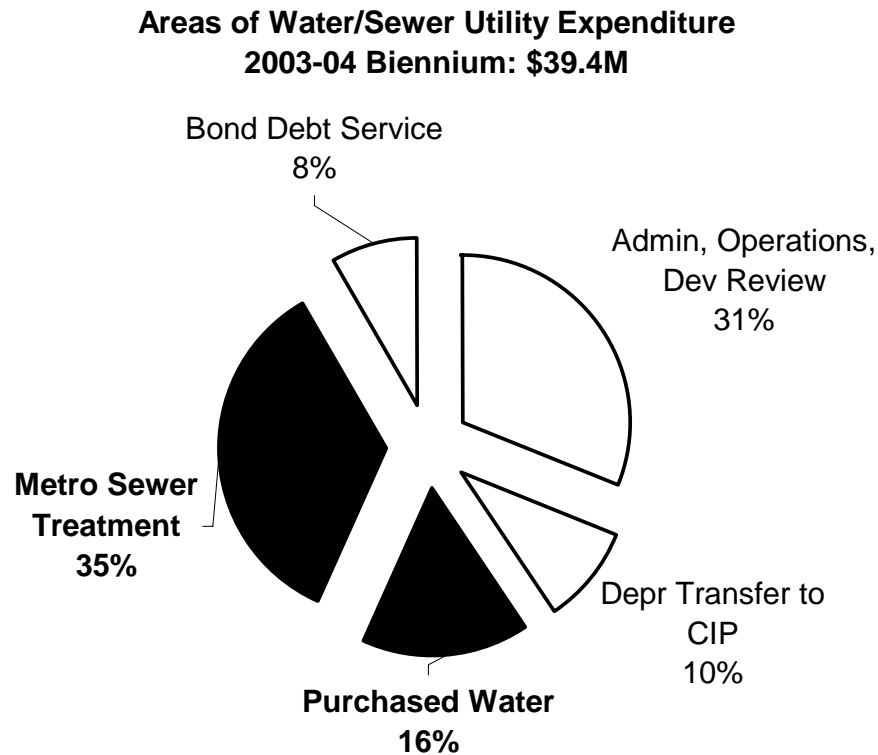
Source: City webpages and phone discussions with staff

Based upon 10ccf consumption/month (water); 7.5ccf (sewer)

* Bi-monthly sewer billing figures include Metro Sewage Treatment charge of \$46.80

How Is The W/S Money Spent?

- 51% of the Utility's revenues are used to purchase water from the Cascade Water Alliance and to pay King County for Metro sewage treatment services



Does not include Ending Fund Balance (\$1.2M)

Source: City 2003-04 Budget

Water/Sewer CIP

- Between 2003-08, the Water/Sewer CIP program totals \$40.8 million
 - Majority of expenditures are for water projects (water source improvements, main replacement, Cascade Water Alliance connection fees)
 - Significant sewer projects include Overlake trunk replacement

2003-08 Water/Sewer CIP: \$40.8M

| Revenues | | Expenses | |
|-------------------------------|-------------|-------------------------------|-------------|
| Beginning Fund Balance | 34% | Water Projects | 54% |
| Depreciation Reserve Transfer | 30% | Regional Connection Fee (CWA) | 9% |
| Connection Fees | 20% | Sewer Projects | 9% |
| Regional Connection Fee (CWA) | 9% | City Campus Contribution | 3% |
| Other Revenues | 8% | Fund Balance (Uncommitted) | 24% |
| Total Revenues | 100% | Total Expenditures | 100% |

Source: 2003-08 CIP; Other revenues include interest earnings and private contributions

Key Observations Of The Water and Sewer Utility

- Metro sewage treatment costs have a significant impact on the rates that customers pay for Utility services
- City receives one-third of its water from its wells which has allowed the City to have one of the lowest rates in the area
 - Protection of this local resource is important given the scarcity of water as a regional resource
 - CIP will spend \$7M over the next six years to rehabilitate the City's wells
- City became a member of Cascade Water Alliance (CWA) in 2003 for purchased water
- A rate study is currently underway to determine the revenue requirements to address both operational and capital components of the Utility. Results will be presented to Council in July/August

UPD Water /Wastewater Utility

UPD Water and Sewer Utility

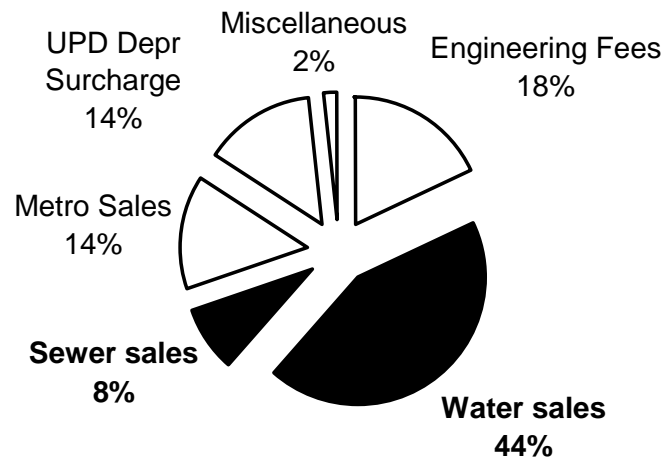
- Guiding Principles

- Utility established per an extension agreement with the Developer to provide water and sewer services to the Urban Planned Development
- Rates for the UPD are established to recover the cost, including depreciation, of serving residents and businesses in this area (policy)
- Operations of the UPD shall not help nor harm the operations of the in city Utility (policy)
 - Distinct rates with their own separate rate table and structure
 - Rates established by a separate rate study

Where Do The Revenues Come From?

- Similar to the City's Utility, water and sewer sales comprise one-half of the revenue for the UPD Utility
- The depreciation rate surcharge is a fee that is paid by the developer to cover the shortfall between revenues from rates and the costs to operate and maintain the Utility

**Sources of UPD Water/Sewer Utility Revenue
2003-04 Biennium: \$4.5M**



Note: Does not include beginning fund balance (\$300K)

Source: City 2003-04 Budget

How Are UPD Revenues Distributed By Customer Class?

Breakdown of UPD W/S Revenues by Customer Class

| | # Customers | | Revenues | |
|--------------------|-------------|------|-------------|------|
| Residential | 1,119 | 97% | \$1,233,206 | 54% |
| Multi-Family | 3 | 0% | \$420,815 | 18% |
| Commercial | 13 | 1% | \$70,479 | 3% |
| Irrigation & Other | 18 | 2% | \$562,182 | 25% |
| Total | 1,153 | 100% | \$2,286,682 | 100% |

Source: City Finance and Utility Billing Records; Includes water, sewer and Metro sales

Revenue figures for 2003-04 biennium

Profile Of A Typical Residential UPD Water and Sewer Billing

- The average billing for a UPD customer is higher than the typical Redmond in city customer.
 - Rates are higher due to higher water cost and the depreciation cost of the system.

2004 Bi-monthly Water/Sewer Charges

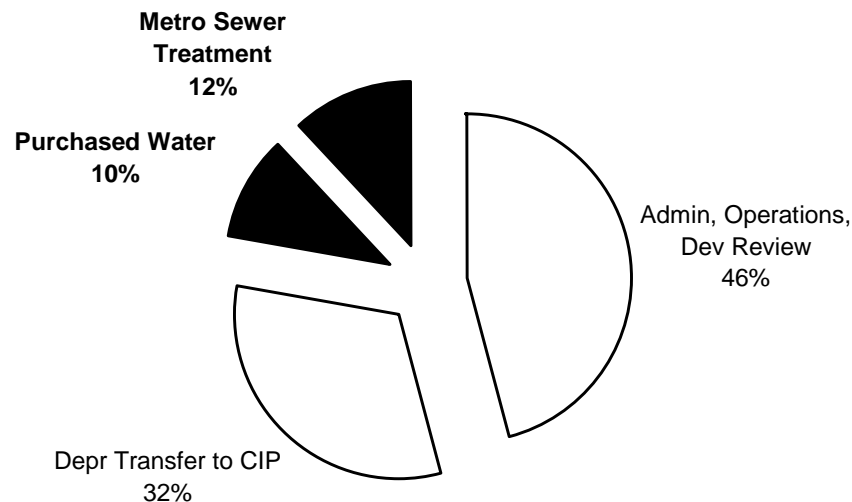
| | UPD 2004 | % | In-City 2004 | % |
|---------------------------|-------------|------|-----------------|------|
| Water | \$72.40 | 46% | \$52.60 | 46% |
| Sewer | \$37.42 | 24% | \$18.38 | 15% |
| Metro Charge | \$46.80 | 30% | \$46.80 | 39% |
| Total Water/Sewer Charges | \$156.62 | 100% | \$117.78 | 100% |

Assumes 10ccf consumption/month (water)

How Is The UPD Money Spent?

- The largest cost is Administration/Operations/Development Review followed by Depreciation.
- Metro and purchased water costs represent a quarter of overall costs.
 - These expenses are expected to represent a larger share of total expenses as the UPD's near buildout.

**Areas of UPD Water/Sewer Utility Expenditure
2003-04 Biennium: \$4.5M**



Does not include Ending Fund Balance (\$300K).

Source: City 2003-04 Budget

Key Observations Of The UPD Water and Sewer Utility

- Depreciation Rate Surcharge appears sufficient to cover the difference in the cost of operating and maintaining the Utility and its operating revenues
- At this time, the UPD is not operating at a profit but this is expected to turn-around as the community continues to grow
 - Water and sewer sales are rising, reflecting the rapid growth in the community
- All UPD water is purchased and therefore more expensive. No well water from Redmond is available to supply water needs for the area.
- No material CIP activity as the condition of its facilities are still fairly new
 - Important to note that the cash balance in UPD CIP will accumulate without major corresponding expenses. Cash is intentionally being set-aside for future replacement of assets.
- A rate study is currently underway to determine the revenue requirements to address both operational and capital components of the Utility. Results will be presented to Council in July/August

Stormwater Management Utility

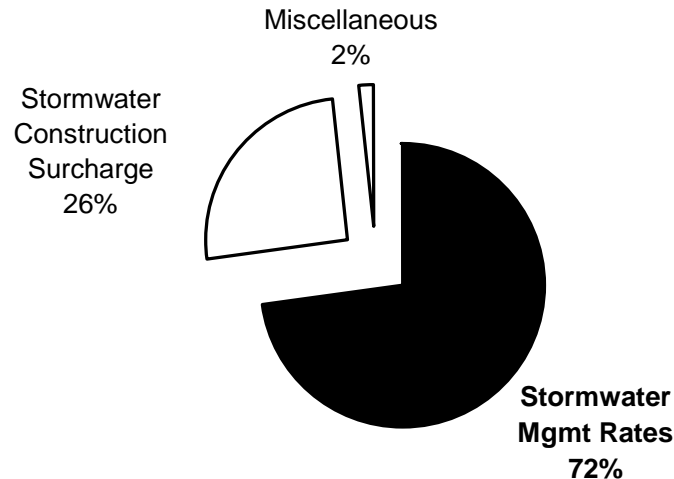
Stormwater Management Utility

- Rates consist of two components
 - Base rate established to recover the cost, including depreciation, of serving residents and businesses in this area
 - CIP surcharge established to support cost of capital projects (sunsets at end of 2004)

Where Do The Revenues Come From?

- Approximately three-quarters of the Utility's rate revenue support operations.
- CIP surcharge was created in 2000 to support the construction of projects in the City and expires at the end of 2004.
 - Surcharge is collected by the Utility and transferred to the CIP.

Sources of Stormwater Mgmt Utility Revenue 2003-04 Biennium: \$14.5M



Note: Does not include beginning fund balance (\$1.5M)

Source: City 2003-04 Budget

How Are SWM Rate Revenues Distributed By Customer Class?

Breakdown of SWM Revenues by Customer Class

| | # Customers | | Revenues | |
|--------------|-------------|------|--------------|------|
| Residential | 9,505 | 90% | \$1,989,000 | 19% |
| Multi-Family | 930 | 9% | \$1,438,000 | 14% |
| Commercial | 182 | 2% | \$7,099,000 | 67% |
| Total | 10,617 | 100% | \$10,526,000 | 100% |

Source: City Finance and Utility Billing Records

Revenue figures for 2003-04 biennium

Profile Of A Typical Stormwater Management Residential Billing

- Billings for a stormwater customer is also on a bi-monthly basis and consist of two charges:

2004 Bi-monthly SWM Charges

| | 2004 | % |
|---------------|---------|------|
| Base Rate | \$17.00 | 74% |
| CIP Surcharge | \$6.00 | 26% |
| Total Bill | \$23.00 | 100% |

How Does Redmond's Stormwater Management Rates Compare To Other Jurisdictions?

- Redmond residential ratepayers pay \$23.00 every two months for stormwater management services
 - Bimonthly billings range from \$11.96 (Bothell) to \$23.56 (Bellevue)

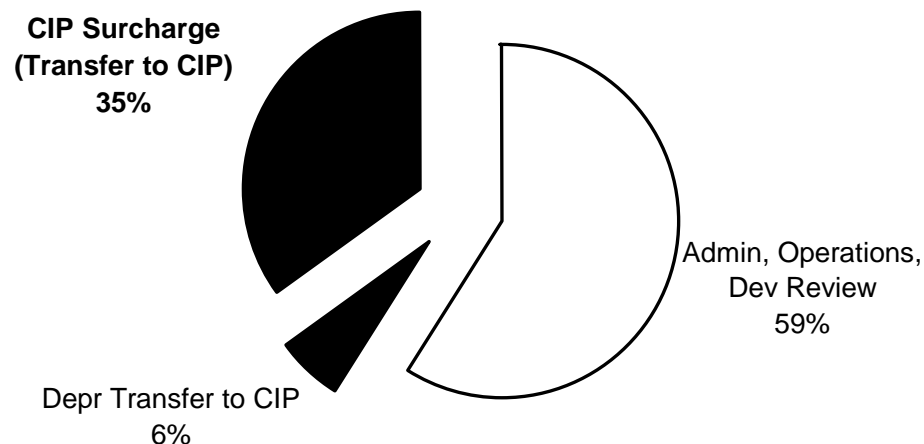
2004 Stormwater Management Billings - Selected Jurisdictions

| Jurisdiction | SWM Bimonthly Bill | |
|------------------------|-------------------------------|--|
| City of Bellevue | \$23.56 | |
| City of Issaquah | \$23.54 | |
| City of Redmond | \$23.00 | <div>Base Rate: \$17.00/bi-month Surcharge: \$6.00/bi-month</div> |
| City of Seattle | \$18.39 | |
| City of Kirkland | \$15.00 | |
| City of Woodinville | \$14.17 | |
| City of Bothell | \$11.96 | |

How Is The SWM Money Spent?

- Operating expenses for the Utility account for 59% of the resources. The remaining 41% is a transfer to the CIP

Areas of Stormwater Management Utility Expenditure 2003-04 Biennium: \$14.3M



Does not include Ending Fund Balance (\$1.7M).

Source: City 2003-04 Budget

Capital Improvement Program

- Between 2003-08, the Stormwater Management CIP program is budgeted to spend approximately \$20 million

2003-08 Stormwater Management CIP: \$20.0M

| Revenues | | Expenses | |
|-------------------------------|-------------|----------------------------|-------------|
| Beginning Fund Balance | 24% | CIP Projects | 80% |
| Transfer from Operations | 22% | City campus contribution | 5% |
| Construction Surcharge | 19% | Fund Balance (Uncommitted) | 15% |
| Capital Facilities Charge | 15% | | |
| Depreciation Reserve Transfer | 13% | | |
| Other Revenues | 7% | | |
| Total Revenues | 100% | Total Expenditures | 100% |

Source: 2003-08 CIP; Other revenues include interest earnings and private contributions

Key Observations Of The Stormwater Management Utility

- Bi monthly CIP Surcharge of \$6.00 is set to expire at the end of 2004
- Rates have remained unchanged for the last five years (since 2000), necessitating the need for a rate review
 - Rates were set at an average rate designed to generate sufficient revenue over a five year period to cover operating and capital needs
 - As a result, rate revenues were over-collected in early years and under-collected in latter years
- A rate study is currently underway to determine the revenue requirements to address both operational and capital components of the Utility. Results will be presented to Council in July/August

A Primer On How Rates Are Set

Utility Rate Setting

- Rate Studies are conducted to ensure revenue from rates are sufficient to cover the cost of maintenance/operations including depreciation, capital and debt requirements.
- Four key tests to assess the financial performance of each Utility
 - Cash Flow: Determines ability of Utility to meet both operating and capital funding needs
 - Operating Income: Determines adequacy of ongoing revenues to meet ongoing expenses
 - Net Income: Determines if Utility is generating a gain or loss after considering all ongoing and one-time revenues and expenses
 - Bond Debt Service Coverage: Determines whether it has sufficient resources to meet its outstanding debt obligations (Note: There are no outstanding bonds in any of the City's utilities)

Utility Rate Setting

- Rate studies are currently underway for each of the City's three Utilities
 - Study sessions
 - July 13, August 10, August 24 (optional)
 - Adoption of revised rates scheduled for August 17
- Any proposed changes to current level of services and the Utilities capital program will be evaluated as part of the rate study process and 2005-06 biennial budget discussions

Questions